

State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

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State of Montana
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2008

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STATEMENT OF NET ASSETS

JUNE 30, 2008

(amounts expressed in thousands)

	PRIMARY GOVERNMENT			COMPONENT UNITS	
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL		
ASSETS					
Cash/cash equivalents (Note 3)	\$ 1,371,726	\$ 360,625	\$ 1,732,351	\$ 235,179	
Receivables (net)	475,300	37,535	512,835	103,517	
Due from primary government	-	-	-	4,573	
Due from other governments	194,169	780	194,949	23,921	
Due from component units	2,170	4,471	6,641	1,043	
Internal balances	(13,138)	13,138	-	-	
Inventories	27,430	7,388	34,818	4,680	
Advances to component units	8,640	8,261	16,901	-	
Long-term loans/notes receivable	267,459	35,261	302,720	936,421	
Equity in pooled investments (Note 3)	1,497,983	-	1,497,983	29,276	
Investments (Note 3)	340,260	21,268	361,528	1,486,465	
Securities lending collateral (Note 3)	134,691	3,503	138,194	153,102	
Deferred charges	3,947	1,420	5,367	8,774	
Capital assets (net) (Note 5)	3,553,591	8,733	3,562,324	631,974	
Other assets	9,506	2,312	11,818	49,063	
Total assets	7,873,734	504,695	8,378,429	3,667,988	
LIABILITIES					
Accounts payable	479,131	12,392	491,523	72,148	
Lottery prizes payable	-	3,126	3,126	-	
Due to primary government	-	-	-	6,641	
Due to other governments	95,684	41	95,725	159	
Due to component units	4,550	23	4,573	1,043	
Advances from primary government	-	-	-	16,901	
Deferred revenue	66,582	6,439	73,021	31,161	
Amounts held in custody for others	33,527	86	33,613	57,151	
Securities lending liability (Note 3)	134,691	3,503	138,194	153,102	
Other liabilities	1,944	-	1,944	8,833	
Short-term debt (Note 11)	-	98,045	98,045	-	
Long-term liabilities (Note 11):					
Due within one year	80,353	12,467	92,820	196,801	
Due in more than one year	461,857	10,857	472,714	1,921,708	
OPEB implicit rate subsidy	40,029	713	40,742	17,226	
Total liabilities	1,398,348	147,692	1,546,040	2,482,874	

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 3,262,932	\$ 8,733	\$ 3,271,665	\$ 360,095
Restricted for:				
Transportation	120,703	-	120,703	-
Fish, wildlife, and parks	82,622	-	82,622	-
Federal grants	17,111	-	17,111	-
Debt service/construction	61,571	-	61,571	12,095
Unemployment compensation	-	277,097	277,097	-
Funds held as permanent investments:				
Nonexpendable	1,475,013	-	1,475,013	225,103
Expendable	27,581	-	27,581	-
Housing authority	-	-	-	153,058
Resource/environment	738,306	-	738,306	-
Other purposes	94,528	59,939	154,467	137,565
Unrestricted	595,019	11,234	606,253	297,198
Total net assets	\$ 6,475,386	\$ 357,003	\$ 6,832,389	\$ 1,185,114

The notes to the financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES				NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
Primary government:						
Governmental activities:						
General government	\$ 634,984	\$ 83,720	\$ 85,572	\$ 2,044	\$ (463,648)	
Public safety/corrections	322,769	149,534	59,103	1,248	(112,884)	
Transportation	488,450	42,348	42,180	372,493	(31,429)	
Health/social services	1,380,629	38,137	920,637	-	(421,855)	
Education/cultural	1,144,637	150,906	150,363	725	(842,643)	
Resource/recreation/environment	258,058	80,933	175,864	4,194	2,933	
Economic development/assistance	152,456	38,520	60,225	152	(53,559)	
Interest on long-term debt	18,344	-	-	-	(18,344)	
Total governmental activities	4,400,327	584,098	1,493,944	380,856	(1,941,429)	
Business-type activities:						
Unemployment Insurance	90,269	85,801	19,876	-	15,408	
Liquor Stores	59,227	69,242	-	-	10,015	
State Lottery	32,984	43,826	-	-	10,842	
Economic Development Bonds	4,552	33	4,514	-	(5)	
Hail Insurance	11,064	7,730	402	-	(2,932)	
General Government Services	56,697	19,844	36,149	540	(164)	
Prison Funds	6,670	7,150	-	-	480	
MUS Group Insurance	59,334	62,666	2,239	-	5,571	
MUS Workers Compensation	3,109	4,660	344	-	1,895	
Total business-type activities	323,906	300,952	63,524	540	41,110	
Total primary government	\$ 4,724,233	\$ 885,050	\$ 1,557,468	\$ 381,396	\$ (1,900,319)	
Component units:						
Housing Authority	\$ 54,194	\$ 283	\$ 60,767	\$ -	\$ 6,856	
Facility Finance Authority	376	444	137	-	205	
State Compensation Insurance (New Fund)	247,793	231,034	-	-	(16,759)	
State Compensation Insurance (Old Fund)	6,372	-	-	-	(6,372)	
Montana Surplus Lines	792	723	-	-	(69)	
Montana State University	438,557	175,418	140,999	20,721	(101,419)	
University of Montana	352,249	157,310	125,951	10,817	(58,171)	
Total component units	\$ 1,100,333	\$ 565,212	\$ 327,854	\$ 31,538	\$ (175,729)	

The notes to the financial statements are an integral part of this statement.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Changes in net assets:				
Net (expense) revenue	\$ (1,941,429)	\$ 41,110	\$ (1,900,319)	\$ (175,729)
General revenues:				
Taxes:				
Property	214,868	-	214,868	-
Fuel	205,758	-	205,758	-
Natural resource	407,007	-	407,007	-
Individual income	862,273	-	862,273	-
Corporate income	161,118	-	161,118	-
Other	320,398	20,340	340,738	-
Unrestricted grants and contributions	28	-	28	661
Settlements	38,760	-	38,760	-
Unrestricted investment earnings	72,203	406	72,609	42,615
Payment from State of Montana	-	-	-	178,100
Gain (loss) on sale of capital assets	6,351	-	6,351	(2)
Miscellaneous	5,810	2,662	8,472	5
Contributions to term and permanent endowments	-	-	-	13,535
Transfers	43,010	(43,010)	-	-
Total general revenues, contributions, and transfers	2,337,584	(19,602)	2,317,982	234,914
Change in net assets	396,155	21,508	417,663	59,185
Total net assets - July 1 - as previously reported	6,138,407	335,181	6,473,588	1,127,330
Prior period adjustments (Note 2)	(59,176)	314	(58,862)	(1,401)
Total net assets - July 1 - as restated	6,079,231	335,495	6,414,726	1,125,929
Total net assets - June 30	\$ 6,475,386	\$ 357,003	\$ 6,832,389	\$ 1,185,114

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund

This fund is the principal operating fund of the State. It accounts for all governmental financial resources, except for those required to be accounted for in another fund.

State Special Revenue Fund

This fund accounts for all activities funded from state sources, which are restricted either legally or administratively for particular costs of an agency, program, or function.

Federal Special Revenue Fund

This fund accounts for activities funded from federal sources used in the operation of state government.

Coal Severance Tax Fund

This fund, created by Article IX, Section 5, of the Montana Constitution and administered by the Department of Revenue, receives 50% of all coal tax collections. The principal can be expended only upon affirmative vote by three-fourths of each house of the Legislature.

Land Grant Fund

This fund is used by the Department of Natural Resources and Conservation to account for lands granted to the State for support of public schools and state institutions.

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type, beginning on page 144.

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT				
	GENERAL	STATE	FEDERAL	COAL		LAND GRANT	NONMAJOR	TOTAL
				SEVERANCE TAX				
ASSETS								
Cash/cash equivalents (Note 3)	\$ 445,810	\$ 663,309	\$ 49,735	\$ 35,171	\$ 7,045	\$ 106,532	\$ 1,307,602	
Receivables (net) (Note 4)	226,133	171,491	11,721	8,974	45,752	6,107	470,178	
Interfund loans receivable (Note 12)	23,121	44,570	-	-	-	-	67,691	
Due from other governments	9,445	2,054	182,634	-	-	36	194,169	
Due from other funds (Note 12)	68,524	11,303	1,441	-	-	1,433	82,701	
Due from component units	306	914	107	82	-	450	1,859	
Inventories	3,572	21,444	-	-	-	-	25,016	
Equity in pooled investments (Note 3)	-	250,807	-	554,265	442,669	250,242	1,497,983	
Long-term loans/notes receivable	156	238,989	353	-	-	27,961	267,459	
Advances to other funds (Note 12)	2,644	16,661	-	3,112	-	2,816	25,233	
Advances to component units	-	-	-	8,640	-	-	8,640	
Investments (Note 3)	17,329	90,363	4,624	188,024	447	14,449	315,236	
Securities lending collateral (Note 3)	-	41,898	917	33,796	25,847	18,457	120,915	
Other assets	2,218	6,366	236	-	-	-	8,820	
Total assets	\$ 799,258	\$ 1,560,169	\$ 251,768	\$ 832,064	\$ 521,760	\$ 428,483	\$ 4,393,502	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable (Note 4)	203,577	81,584	140,819	-	4,679	5,439	436,098	
Interfund loans payable (Note 12)	-	2,599	64,452	-	-	-	67,051	
Due to other governments	-	93,569	2,115	-	-	-	95,684	
Due to other funds (Note 12)	9,874	55,215	4,543	5,518	-	3,409	78,559	
Due to component units	23,393	1,810	1,562	-	-	25	26,790	
Advances from other funds (Note 12)	-	22,628	1,566	-	-	15,820	40,014	
Deferred revenue	78,680	71,092	33,937	-	40,957	396	225,062	
Amounts held in custody for others	21,933	11,387	150	-	57	-	33,527	
Securities lending liability (Note 3)	-	41,898	917	33,796	25,847	18,457	120,915	
Other liabilities	-	390	-	-	-	-	390	
Total liabilities	337,457	382,172	250,061	39,314	71,540	43,546	1,124,090	
Fund balances:								
Reserved for:								
Encumbrances	19,240	19,012	515	-	-	1,713	40,480	
Inventories	3,572	21,444	-	-	-	-	25,016	
Long-term loans/notes receivable	156	238,989	353	-	-	27,961	267,459	
Advances to other funds/component units	2,644	16,661	-	11,752	-	2,816	33,873	
Special revenue (Note 14)	-	903,955	26,639	-	-	-	930,594	
Debt service	-	-	-	-	-	3,791	3,791	
Trust principal (Note 14)	10	-	-	780,998	450,220	259,678	1,490,906	
Escheated property	2,599	-	-	-	-	-	2,599	
Unreserved, designated, reported in nonmajor (Note 1):								
Debt service funds	-	-	-	-	-	8,532	8,532	
Unreserved, undesignated	433,580	(22,064)	(25,800)	-	-	-	385,716	
Unreserved, undesignated, reported in nonmajor:								
Debt service funds	-	-	-	-	-	(7,449)	(7,449)	
Capital projects funds	-	-	-	-	-	87,895	87,895	
Total fund balances	461,801	1,177,997	1,707	792,750	450,220	384,937	3,269,412	
Total liabilities and fund balances	\$ 799,258	\$ 1,560,169	\$ 251,768	\$ 832,064	\$ 521,760	\$ 428,483	\$ 4,393,502	

The notes to the financial statements are an integral part of this statement.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2008

(amounts expressed in thousands)

Total fund balances for governmental funds	\$ 3,269,412
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.

Land	433,876	
Land improvements	24,720	
Buildings/improvements	426,078	
Equipment	90,969	
Infrastructure	3,686,615	
Other capital assets	162,455	
Construction in progress	201,390	
Intangible assets	33,877	
Less accumulated depreciation	<u>(1,598,483)</u>	
Total capital assets		3,461,497

Certain revenues are earned, but not available and therefore deferred in the funds.	159,554
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Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	135,533
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Deferred issue costs are reported as current expenditures in the funds. These costs are amortized over the life of the bonds and included in governmental activities in the statement of net assets.	3,947
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Accrued interest	(5,610)	
Lease/installment purchase payable	(1,262)	
Bonds/notes payable (net)	(422,703)	
Compensated absences payable	(85,223)	
OPEB implicit rate subsidy	(37,841)	
Early retirement benefits payable	(44)	
Arbitrage rebate tax payable	(320)	
Other liabilities	<u>(1,554)</u>	
Total long-term liabilities		<u>(554,557)</u>

Net assets of governmental activities	<u>\$ 6,475,386</u>
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The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 (amounts expressed in thousands)

	SPECIAL REVENUE			PERMANENT		NONMAJOR	TOTAL
	GENERAL	STATE	FEDERAL	COAL SEVERANCE TAX	LAND GRANT		
REVENUES							
Licenses/permits	\$ 126,303	\$ 156,606	\$ -	\$ -	\$ 439	\$ 407	\$ 283,755
Taxes:							
Natural resource	186,180	193,583	-	22,379	-	6,919	409,061
Individual income	852,093	-	-	-	-	-	852,093
Corporate income	161,199	-	-	-	-	-	161,199
Property	203,363	11,505	-	-	-	-	214,868
Fuel	-	205,745	-	-	-	11	205,756
Other (Note 1)	227,474	90,402	-	-	-	2,075	319,951
Charges for services/fines/forfeits/settlements	40,174	96,246	35,796	-	-	16,302	188,518
Investment earnings	32,938	35,277	985	42,823	27,753	25,389	165,165
Securities lending income	2,964	1,639	27	1,757	1,456	1,036	8,879
Sale of documents/merchandise/property	290	4,791	1	-	12,132	2,497	19,711
Rentals/leases/royalties	23	30,399	5	-	34,598	151	65,176
Contributions/premiums	-	17,181	-	-	-	-	17,181
Grants/contracts/donations	5,856	21,855	113	-	-	1	27,825
Federal	37,382	13,868	1,565,663	-	-	-	1,616,913
Federal indirect cost recoveries	107	43,592	52,866	-	-	-	96,565
Other revenues	1,411	3,130	250	-	-	101	4,892
Total revenues	1,877,757	925,819	1,655,706	66,959	76,378	54,889	4,657,508
EXPENDITURES							
Current:							
General government	308,787	220,798	15,911	-	-	166	545,662
Public safety/corrections	212,286	54,550	42,081	-	-	2,177	311,094
Transportation	457	227,557	132,369	-	-	-	360,383
Health/social services	353,658	111,231	907,054	-	-	392	1,372,335
Education/cultural	872,742	79,875	181,002	-	3,914	15	1,137,548
Resource/recreation/environment	79,109	132,888	88,112	-	-	98	300,207
Economic development/assistance	31,483	74,580	42,555	-	-	438	149,056
Debt service:							
Principal retirement	469	381	248	-	-	32,669	33,767
Interest/fiscal charges	170	1,442	18	-	-	17,301	18,931
Capital outlay	7,705	49,373	237,982	-	-	56,051	351,111
Securities lending	2,543	1,313	21	1,389	1,152	826	7,244
Total expenditures	1,869,409	953,988	1,647,353	1,389	5,066	110,133	4,587,338
Excess of revenue over (under) expenditures	8,348	(28,169)	8,353	65,570	71,312	(55,244)	70,170
OTHER FINANCING SOURCES (USES)							
Bonds issued	-	44,670	-	-	-	14,820	59,490
Bond premium	-	733	-	-	-	95	828
Inception of lease/installment contract	597	41	236	-	-	-	874
Insurance proceeds	-	1,681	-	-	-	-	1,681
General capital asset sale proceeds	3,531	183	-	-	2,782	1	6,497
Transfers in (Note 12)	75,467	195,259	1,691	648	147	140,075	413,287
Transfers out (Note 12)	(193,064)	(20,145)	(31,088)	(37,796)	(63,982)	(27,653)	(373,728)
Total other financing sources (uses)	(113,469)	222,422	(29,161)	(37,148)	(61,053)	127,338	108,929
Net change in fund balances	(105,121)	194,253	(20,808)	28,422	10,259	72,094	179,099
Fund balances - July 1 - as previously reported	569,656	984,438	22,923	764,328	440,002	312,804	3,094,151
Prior period adjustments (Note 2)	(1,273)	157	(408)	-	(41)	39	(1,526)
Fund balances - July 1 - as restated	568,383	984,595	22,515	764,328	439,961	312,843	3,092,625
Increase (decrease) in inventories	(1,461)	(851)	-	-	-	-	(2,312)
Fund balances - June 30	\$ 461,801	\$ 1,177,997	\$ 1,707	\$ 792,750	\$ 450,220	\$ 384,937	\$ 3,269,412

The notes to the financial statements are an integral part of this statement.

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**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008
 (amounts expressed in thousands)

Net change in fund balances - total governmental funds \$ 179,099

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Note 5)

Capital outlay	366,161	
Depreciation expense	(158,587)	
Excess of capital outlay over depreciation expense		207,574

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold. (4,270)

Donations of capital assets or transfers of capital assets to other funds affects net assets in the statement of activities, but these transactions do not appear in the governmental funds because they are not financial resources. 3,632

Inventories of governmental funds are recorded as expenditures when purchased. However, in the statement of activities, inventories are expensed when consumed. (2,312)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 77,755

Internal service funds are used by management to charge the costs of certain activities, such as insurance and central computer services, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 4,698

The incurrence of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

The details of these differences is as follows:

Bond proceeds	(59,490)	
Bond premium	(828)	
Capital lease financing	(874)	
Principal retirement	33,767	
Issuance costs deferral	704	
Bond issuance costs amortization	(409)	
Bond discount amortization	(14)	
Bond premium amortization	1,284	
Total long-term debt proceeds/repayment		(25,860)

Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental funds. The details of these differences is as follows:

Accrued interest	(245)	
Compensated absences	(6,430)	
OPEB implicit rate subsidy	(37,841)	
Early retirement benefits	3	
Arbitrage rebate tax	43	
Other liabilities	309	
Total additional expenditures		(44,161)
Change in net assets of governmental activities		<u>\$ 396,155</u>

The notes to the financial statements are an integral part of this statement.

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PROPRIETARY FUND FINANCIAL STATEMENTS

Unemployment Insurance

The Unemployment Insurance Fund accounts for employer contributions deposited with the Secretary of the Treasury of the United States to the credit of the State's unemployment trust fund. Unemployment benefits are paid from this fund to eligible recipients.

Economic Development Bonds

The Economic Development Bonds Fund accounts for the Economic Development Bond Act programs and the Municipal Finance Consolidation Act programs. These programs assist Montana's small businesses, local governments, and state agencies in obtaining long-term, fixed-rate financing through private Montana lending institutions.

Nonmajor Funds

Nonmajor enterprise funds are presented beginning on page 156.

Governmental Activities – Internal Service Funds

Internal service funds are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. These funds are presented in more detail beginning on page 178.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
ASSETS					
Current assets:					
Cash/cash equivalents (Note 3)	\$ 275,086	\$ 9,230	\$ 76,309	\$ 360,625	\$ 64,124
Receivables (net) (Note 4)	3,397	10,658	23,480	37,535	5,069
Interfund loans receivable (Note 12)	-	-	159	159	808
Due from other governments	51	-	729	780	-
Due from other funds (Note 12)	-	4,133	465	4,598	7,326
Due from component units	127	1,857	2,487	4,471	363
Inventories	-	-	7,388	7,388	2,414
Short-term investments (Note 3)	-	9,908	-	9,908	-
Securities lending collateral (Note 3)	-	1	3,502	3,503	13,776
Other current assets	-	-	394	394	685
Total current assets	278,661	35,787	114,913	429,361	94,565
Noncurrent assets:					
Advances to other funds (Note 12)	-	21,578	75	21,653	-
Advances to component units	-	8,261	-	8,261	-
Long-term investments (Note 3)	-	3,923	7,437	11,360	25,024
Long-term notes/loans receivable	-	34,841	420	35,261	-
Deferred charges	-	1,420	-	1,420	-
Other long-term assets	-	-	1,918	1,918	-
Capital assets (Note 5):					
Land	-	-	800	800	236
Land improvements	-	-	2,343	2,343	95
Buildings/improvements	-	-	7,331	7,331	3,645
Equipment	-	6	5,823	5,829	207,391
Infrastructure	-	-	884	884	-
Construction in progress	-	-	567	567	6,436
Intangible assets	-	-	186	186	1,004
Less accumulated depreciation	-	(3)	(9,204)	(9,207)	(126,713)
Total capital assets	-	3	8,730	8,733	92,094
Total noncurrent assets	-	70,026	18,580	88,606	117,118
Total assets	278,661	105,813	133,493	517,967	211,683

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
LIABILITIES					
Current liabilities:					
Accounts payable (Note 4)	\$ 1,564	\$ 1,162	\$ 9,666	\$ 12,392	\$ 15,133
Lottery prizes payable	-	-	2,031	2,031	-
Interfund loans payable (Note 12)	-	-	295	295	1,312
Due to other governments	-	-	41	41	-
Due to other funds (Note 12)	-	3	12,974	12,977	3,089
Due to component units	-	-	23	23	49
Deferred revenue	-	-	6,439	6,439	1,074
Lease/installment purchase payable (Note 10)	-	-	-	-	43
Short-term debt (Note 11)	-	98,045	-	98,045	-
Bonds/notes payable - net (Note 11)	-	417	-	417	-
Amounts held in custody for others	-	-	86	86	-
Securities lending liability (Note 3)	-	1	3,502	3,503	13,776
Estimated insurance claims (Note 8)	-	-	11,481	11,481	13,442
Compensated absences payable (Note 11)	-	12	532	544	2,195
Arbitrage rebate tax payable (Note 11)	-	25	-	25	-
Total current liabilities	1,564	99,665	47,070	148,299	50,113
Noncurrent liabilities:					
Lottery prizes payable	-	-	1,095	1,095	-
Advances from other funds (Note 12)	-	-	-	-	6,872
Lease/installment purchase payable (Note 10)	-	-	-	-	116
Bonds/notes payable - net (Note 11)	-	1,436	-	1,436	-
Estimated insurance claims (Note 8)	-	-	8,411	8,411	13,156
Compensated absences payable (Note 11)	-	41	955	996	3,705
Arbitrage rebate tax payable (Note 11)	-	14	-	14	-
OPEB implicit rate subsidy (Note 11)	-	15	698	713	2,188
Total noncurrent liabilities	-	1,506	11,159	12,665	26,037
Total liabilities	1,564	101,171	58,229	160,964	76,150
NET ASSETS					
Invested in capital assets, net of related debt	-	3	8,730	8,733	92,095
Restricted for:					
Unemployment Compensation	277,097	-	-	277,097	-
Other Purposes	-	3,133	56,805	59,938	-
Unrestricted	-	1,506	9,729	11,235	43,438
Total net assets	\$ 277,097	\$ 4,642	\$ 75,264	\$ 357,003	\$ 135,533

The notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
Operating revenues:					
Charges for services	\$ -	\$ 33	\$ 128,118	\$ 128,151	\$ 125,633
Investment earnings	13,284	1,044	2,881	17,209	2,950
Securities lending income	-	-	109	109	167
Financing income	-	3,426	-	3,426	-
Contributions/premiums	85,801	-	86,738	172,539	126,208
Grants/contracts/donations	6,592	-	36,581	43,173	1,563
Other operating revenues	1,007	-	1,922	2,929	2,818
Total operating revenues	106,684	4,503	256,349	367,536	259,339
Operating expenses:					
Personal services	-	297	12,701	12,998	44,232
Contractual services	-	32	12,611	12,643	22,899
Supplies/materials	-	5	60,805	60,810	26,714
Benefits/claims	90,333	15	111,904	202,252	117,114
Depreciation	-	-	625	625	12,121
Amortization	-	-	152	152	379
Utilities/rent	-	43	969	1,012	14,693
Communications	-	7	1,132	1,139	10,760
Travel	-	2	360	362	552
Repair/maintenance	-	-	748	748	9,594
Grants	-	-	1,309	1,309	-
Lottery prize payments	-	-	22,838	22,838	-
Interest expense	-	4,082	19	4,101	285
Securities lending expense	-	-	88	88	135
Arbitrage rebate tax	-	24	1	25	-
Dividend expense	-	-	793	793	-
Other operating expenses	(64)	45	1,960	1,941	3,326
Total operating expenses	90,269	4,552	229,015	323,836	262,804
Operating income (loss)	16,415	(49)	27,334	43,700	(3,465)
Nonoperating revenues (expenses):					
Tax revenues	-	-	20,340	20,340	-
Insurance proceeds	-	-	-	-	858
Gain (loss) on sale of capital assets	-	-	(10)	(10)	(101)
Federal indirect cost recoveries	-	-	8	8	4,889
Increase (decrease) value of livestock	-	-	(62)	(62)	-
Total nonoperating revenues (expenses)	-	-	20,276	20,276	5,646
Income (loss) before contributions and transfers	16,415	(49)	47,610	63,976	2,181
Capital contributions	-	-	540	540	2,726
Transfers in (Note 12)	-	-	109	109	3,453
Transfers out (Note 12)	(1,299)	-	(41,818)	(43,117)	(3,662)
Change in net assets	15,116	(49)	6,441	21,508	4,698
Total net assets - July 1 - as previously reported	261,618	4,691	68,872	335,181	129,356
Prior period adjustments (Note 2)	363	-	(49)	314	1,479
Total net assets - July 1 - as restated	261,981	4,691	68,823	335,495	130,835
Total net assets - June 30	\$ 277,097	\$ 4,642	\$ 75,264	\$ 357,003	\$ 135,533

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from sales and services	\$ 86,890	\$ 33	\$ 216,040	\$ 302,963	\$ 250,734
Payments to suppliers for goods and services	-	(142)	(121,026)	(121,168)	(81,722)
Payments to employees	-	(297)	(12,622)	(12,919)	(44,074)
Grant receipts	6,563	-	35,837	42,400	6,303
Grant payments	-	-	(1,305)	(1,305)	-
Cash payments for claims	(88,958)	-	(74,338)	(163,296)	(115,580)
Cash payments for prizes	-	-	(23,197)	(23,197)	-
Other operating revenues	(796)	-	1,778	982	2,542
Other operating payments	-	-	(830)	(830)	-
Net cash provided by (used for) operating activities	3,699	(406)	20,337	23,630	18,203
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Collection of taxes	-	-	20,335	20,335	-
Transfers to other funds	(1,299)	-	(32,184)	(33,483)	(3,694)
Transfers from other funds	-	-	108	108	3,583
Proceeds from interfund loans/advances	-	-	(18)	(18)	1,752
Payments of interfund loans/advances	-	-	(18)	(18)	(3,635)
Payment of principal and interest on bonds and notes	-	(5,840)	(442)	(6,282)	(388)
Proceeds from issuance of bonds and notes	-	429	-	429	-
Payment of bond issuance costs	-	-	-	-	-
Contributed capital transfers to other funds	-	-	-	-	-
Contributed capital transfers from other funds	-	-	-	-	2,861
Net cash provided by (used for) noncapital financing activities	(1,299)	(5,411)	(12,219)	(18,929)	479
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from insurance	-	-	-	-	98
Acquisition of capital assets	-	(3)	(526)	(529)	(13,358)
Proceeds from sale of capital assets	-	-	1	1	651
Net cash used for capital and related financing activities	-	(3)	(525)	(528)	(12,609)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investments	-	(10,044)	(7,323)	(17,367)	(20,275)
Proceeds from sales or maturities of investments	-	1,076	1,655	2,731	-
Proceeds from securities lending transactions	-	-	94	94	159
Interest and dividends on investments	13,284	894	2,739	16,917	2,995
Payment of securities lending costs	-	-	(75)	(75)	(136)
Collections of principal and interest on loans	-	23,480	-	23,480	-
Cash payment for loans	-	(30,026)	-	(30,026)	-
Arbitrage rebate tax	-	(43)	-	(43)	-
Net cash provided by (used for) investing activities	13,284	(14,663)	(2,910)	(4,289)	(17,257)
Net increase (decrease) in cash and cash equivalents	15,684	(20,483)	4,683	(116)	(11,184)
Cash and cash equivalents, July 1	259,402	29,713	71,626	360,741	75,307
Cash and cash equivalents, June 30	\$ 275,086	\$ 9,230	\$ 76,309	\$ 360,625	\$ 64,123

The notes to the financial statements are an integral part of this statement.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES --	
	UNEMPLOYMENT INSURANCE	ECONOMIC DEVELOPMENT BONDS	NONMAJOR	TOTAL	INTERNAL SERVICE FUNDS	
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 16,415	\$ (49)	\$ 27,336	\$ 43,702	\$	(3,465)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Depreciation	-	-	625	625		12,121
Amortization	-	-	161	161		379
Interest expense	-	4,082	13	4,095		277
Securities lending expense	-	-	84	84		135
Investment Earnings	(13,284)	(1,044)	(2,817)	(17,145)		(2,950)
Securities lending income	-	-	(103)	(103)		(167)
Financing income	-	(3,426)	-	(3,426)		-
Federal indirect cost recoveries	-	-	(8)	(8)		4,731
Arbitrage rebate tax	-	24	-	24		-
Change in assets and liabilities:						
Decr (incr) in accounts receivable	(662)	-	237	(425)		(108)
Decr (incr) in due from other funds	(127)	-	(57)	(184)		(1,582)
Decr (incr) in due from component units	(29)	-	(135)	(164)		62
Decr (incr) in due from other governments	-	-	88	88		7
Decr (incr) in inventories	-	-	299	299		96
Decr (incr) in other assets	-	(5)	(308)	(313)		(144)
Incr (decr) in accounts payable	1,132	(8)	415	1,539		6,929
Incr (decr) in lottery prizes payable	-	-	419	419		-
Incr (decr) in due to other funds	254	(3)	(10,959)	(10,708)		143
Incr (decr) in due to component units	-	-	19	19		(27)
Incr (decr) in due to other governments	-	-	60	60		-
Incr (decr) in deferred revenue	-	-	121	121		85
Incr (decr) in amounts held in custody for others	-	-	(504)	(504)		-
Incr (decr) in compensated absences payable	-	8	240	248		560
Incr (decr) in OPEB implicit rate subsidy	-	15	697	712		2,152
Incr (decr) in estimated claims	-	-	4,414	4,414		(1,031)
Net cash provided by (used for) operating activities	\$ 3,699	\$ (406)	\$ 20,337	\$ 23,630	\$	18,203
Schedule of noncash transactions:						
Capital asset acquisitions from contributed capital	\$ -	\$ -	\$ 214	\$ 214	\$	-
Capital contributions from other funds	\$ -	\$ -	\$ -	\$ -	\$	632
Amortization of bond issuance costs	\$ -	\$ -	\$ 9	\$ 9	\$	-
Incr (decr) in fair value of investments	\$ -	\$ (147)	\$ 21	\$ (126)	\$	-
Total noncash transactions	\$ -	\$ (147)	\$ 244	\$ 97	\$	632

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FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trust Funds

These funds provide retirement, disability, death, and lump-sum payments to retirement system members.

Private-Purpose Trust Funds

These funds are used to account for assets held by the State in a trustee capacity, where both the principal and earnings benefit individuals, private organizations, or other governments.

Investment Trust Fund

This fund accounts for the receipt of monies by the Montana Board of Investments for investment in the Short-term Investment Pool (STIP), an external investment pool, and the distribution of related investment earnings to local government agencies.

Agency Funds

Agency funds are used to account for assets held by the State as an agent for individuals, private organizations, and other governments.

Individual funds are presented, by fund type, beginning on page 196.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2008

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST	AGENCY FUNDS
ASSETS				
Cash/cash equivalents (Note 3)	\$ 90,202	\$ 128,553	\$ 454,080	\$ 5,369
Receivables (net):				
Accounts receivable	20,616	-	1,050	315
Interest	18,735	11	-	1
Due from primary government	22,289	-	-	-
Due from other PERB plans	483	-	-	-
Long-term loans/notes receivable	69	-	-	-
Total receivables	62,192	11	1,050	316
Investments at fair value:				
Equity in pooled investments (Note 3)	7,453,737	-	-	-
Other investments (Note 3)	425,619	119,286	46,671	24
Total investments	7,879,356	119,286	46,671	24
Securities lending collateral (Note 3)	466,002	107	21,941	12
Capital Assets:				
Land	35	-	-	-
Buildings/improvements	158	-	-	-
Equipment	69	-	-	-
Accumulated depreciation	(198)	-	-	-
Intangible assets	572	-	-	-
Total capital assets	636	-	-	-
Other assets	854	13,678	-	13,332
Total assets	8,499,242	261,635	523,742	19,053
LIABILITIES				
Accounts payable	976	10	1,834	653
Due to primary government	53	-	-	-
Due to other PERB plans	483	-	-	-
Deferred revenue	162	-	-	-
Amounts held in custody for others	-	-	-	18,388
Securities lending liability (Note 3)	466,002	107	21,941	12
Compensated absences payable	439	-	-	-
OPEB implicit rate subsidy	139	-	-	-
Total liabilities	468,254	117	23,775	19,053
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 8,030,988	\$ 261,518	\$ 499,967	\$ -

The notes to the financial statements are an integral part of this statement.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE- PURPOSE TRUST FUNDS	INVESTMENT TRUST
ADDITIONS			
Contributions/premiums:			
Employer	\$ 166,939	\$ -	\$ -
Employee	172,417	-	-
Participant contributions	-	57,625	-
Other contributions	35,023	-	963,868
Net investment earnings:			
Investment earnings	(356,594)	5,415	27,778
Administrative investment expense	(40,010)	-	-
Securities lending income	24,502	-	901
Securities lending expense	(20,028)	-	(705)
Charges for services	632	-	-
Other additions	354	3,453	-
Total additions	(16,765)	66,493	991,842
DEDUCTIONS			
Benefits	439,769	-	-
Refunds	24,367	-	-
Distributions	-	22,085	1,416,434
Administrative expenses:			
Personal services	2,748	-	-
Contractual services	1,343	959	-
Supplies/materials	83	-	-
Depreciation	20	-	-
Amortization	194	-	-
Utilities/rent	282	-	-
Communications	157	-	-
Travel	66	-	-
Repair/maintenance	51	-	-
Grants	-	12	-
Other operating expenses	1,425	-	-
Local assistance	14	-	-
Transfers to ORP	250	-	-
Transfers to PERS-DCRP	1,077	-	-
Total deductions	471,846	23,056	1,416,434
Change in net assets	(488,611)	43,437	(424,592)
Net assets - July 1 - as previously reported	8,519,594	218,081	924,559
Prior period adjustments (Note 2)	5	-	-
Net assets - July 1 - as restated	8,519,599	218,081	924,559
Net assets - June 30	\$ 8,030,988	\$ 261,518	\$ 499,967

The notes to the financial statements are an integral part of this statement.

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COMPONENT UNIT FINANCIAL STATEMENTS

Housing Authority

This authority facilitates the availability of decent, safe, and sanitary housing to persons and families of lower income. The board issues negotiable notes and bonds to fulfill its purposes.

Facility Finance Authority

This authority assists all eligible, non-profit Montana health care and other community-based service providers to obtain and maintain access to the broadest range of low-cost capital financing possible.

Montana State Fund (New and Old Fund)

These funds provide workers compensation insurance. These funds consists of two separate entities: the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990.

Montana Surplus Lines

Montana Surplus Lines Agents Association is a legally separate entity appointed as an advisory organization by the Montana Insurance Commissioner, and primarily performs services as directed by the Commissioner, located within the Montana State Auditors' Office. The Association was reactivated in 1989 to operate the Montana State Insurance Commissioner's Surplus Lines stamping office. The Association regulates insurance companies that provide specialized insurance coverage, of an unusual or high risk nature, that is not provided by other insurance companies.

Montana State University and University of Montana

These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services.

COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS

JUNE 30, 2008

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
ASSETS				
Cash/cash equivalents (Note 3)	\$ 4,878	\$ 2,290	\$ 23,286	\$ 12,383
Receivables (net)	25,710	342	29,421	269
Due from primary government	-	-	8	-
Due from other governments	10	-	-	-
Due from component units	-	-	615	112
Inventories	-	-	-	-
Long-term loans/notes receivable	902,715	520	-	-
Equity in pooled investments (Note 3)	-	-	-	-
Investments (Note 3)	163,701	232	952,604	19,925
Securities lending collateral (Note 3)	41	109	143,711	4,179
Deferred charges	8,774	-	-	-
Capital assets (net) (Note 5)	37	-	10,049	-
Other assets	255	-	38,168	-
Total assets	1,106,121	3,493	1,197,862	36,868
LIABILITIES				
Accounts payable	4,977	24	17,869	151
Due to primary government	9	6	1,387	-
Due to component units	-	-	112	615
Due to other governments	-	-	-	-
Advances from primary government	-	-	-	-
Deferred revenue	-	-	9,842	-
Amounts held in custody for others	-	-	44,889	-
Securities lending liability (Note 3)	41	109	143,711	4,179
Other liabilities	-	-	-	-
Long-term liabilities (Note 11):				
Due within one year	14,832	9	141,277	7,202
Due in more than one year	933,124	24	613,365	61,233
OPEB implicit rate subsidy	43	3	858	-
Total liabilities	953,026	175	973,310	73,380
NET ASSETS				
Invested in capital assets, net of related debt	37	-	10,049	-
Restricted for:				
Debt service/construction	-	-	-	-
Funds held as permanent investments:				
Nonexpendable	-	-	-	-
Housing authority	153,058	-	-	-
Other purposes	-	-	-	-
Unrestricted	-	3,318	214,503	(36,512)
Total net assets	\$ 153,095	\$ 3,318	\$ 224,552	\$ (36,512)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES		MONTANA STATE UNIVERSITY		UNIVERSITY OF MONTANA		TOTAL	
\$	643	\$	124,034	\$	67,665	\$	235,179
	152		19,953		27,670		103,517
	-		1,534		3,031		4,573
	-		13,951		9,960		23,921
	-		20		296		1,043
	-		2,940		1,740		4,680
	-		20,538		12,648		936,421
	-		14,491		14,785		29,276
	126		154,364		195,513		1,486,465
	-		3,286		1,776		153,102
	-		-		-		8,774
	-		328,350		293,538		631,974
	-		5,193		5,447		49,063
	921		688,654		634,069		3,667,988
	518		27,374		21,235		72,148
	-		4,380		859		6,641
	-		296		20		1,043
	-		-		159		159
	-		12,123		4,778		16,901
	13		9,678		11,628		31,161
	-		5,008		7,254		57,151
	-		3,286		1,776		153,102
	-		5,956		2,877		8,833
	-		18,279		15,202		196,801
	-		153,883		160,079		1,921,708
	-		8,970		7,352		17,226
	531		249,233		233,219		2,482,874
	-		196,177		153,832		360,095
	-		12,095		-		12,095
	-		99,104		125,999		225,103
	-		-		-		153,058
	247		53,466		83,852		137,565
	143		78,579		37,167		297,198
\$	390	\$	439,421	\$	400,850	\$	1,185,114

COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(amounts expressed in thousands)

	HOUSING AUTHORITY	FACILITY FINANCE AUTHORITY	MONTANA STATE FUND (NEW FUND)	MONTANA STATE FUND (OLD FUND)
EXPENSES	\$ 54,194	\$ 376	\$ 247,793	\$ 6,372
PROGRAM REVENUES:				
Charges for services	283	444	231,034	-
Operating grants and contributions	60,767	137	-	-
Capital grants and contributions	-	-	-	-
Total program revenues	61,050	581	231,034	-
Net (expenses) program revenues	6,856	205	(16,759)	(6,372)
GENERAL REVENUES:				
Unrestricted grants and contributions	-	-	-	-
Unrestricted investment earnings	-	-	39,702	2,494
Payment from State of Montana	-	-	-	-
Gain (loss) on sale of capital assets	-	-	-	-
Miscellaneous	1	-	4	-
Contributions to term and permanent endowments	-	-	-	-
Total general revenues and contributions	1	-	39,706	2,494
Change in net assets	6,857	205	22,947	(3,878)
Total net assets - July 1 - as previously reported	146,238	3,113	201,605	(32,634)
Prior period adjustments (Note 2)	-	-	-	-
Total net assets - July 1 - as restated	146,238	3,113	201,605	(32,634)
Total net assets - June 30	\$ 153,095	\$ 3,318	\$ 224,552	\$ (36,512)

The notes to the financial statements are an integral part of this statement.

MONTANA SURPLUS LINES	MONTANA STATE UNIVERSITY	UNIVERSITY OF MONTANA	TOTAL
\$ 792	\$ 438,557	\$ 352,249	\$ 1,100,333
723	175,418	157,310	565,212
-	140,999	125,951	327,854
-	20,721	10,817	31,538
723	337,138	294,078	924,604
(69)	(101,419)	(58,171)	(175,729)
-	661	-	661
11	5,711	(5,303)	42,615
-	102,954	75,146	178,100
-	90	(92)	(2)
-	-	-	5
-	6,659	6,876	13,535
11	116,075	76,627	234,914
(58)	14,656	18,456	59,185
448	425,315	383,245	1,127,330
-	(550)	(851)	(1,401)
448	424,765	382,394	1,125,929
\$ 390	\$ 439,421	\$ 400,850	\$ 1,185,114